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U.S. TO REQUEST WTO CONSULTATIONS WITH MEXICO REGARDING TELECOMMUNICATIONS TRADE BARRIERS

United States Trade Representative Charlene Barshefsky today announced that the United States will request World Trade Organization (WTO) consultations with Mexico regarding barriers to competition in Mexico's $12 billion telecommunications market.

"These barriers adversely affect U.S. interests and deprive Mexican citizens of the benefits of competition," said Ambassador Barshefsky. "We have informally consulted with the Mexican government on these issues for some time, most recently for two days in Mexico City this week, and have repeatedly been promised decisive action. However, U.S. carriers continue to face serious barriers to competition in the Mexican market, and the time has come to address these issues in the WTO."

The United States seeks resolution of three related issues: lack of effective disciplines over the former monopoly, Telmex, which is able to use its dominant position in the market to thwart competition; failure to ensure timely, cost-oriented interconnection that would permit competing carriers to connect to Telmex customers to provide local, long-distance, and international service; and finally, failure to permit alternatives to an outmoded system of charging U.S. carriers above-cost rates for completing international calls into Mexico.

"The Mexican government has indicated that it hopes to resolve many of these issues over the next few months," said Ambassador Barshefsky. "The WTO process should provide an effective forum for addressing these issues."

Failure to resolve these complaints, which are echoed by many Mexican companies, will put Mexico at an enormous disadvantage. Already, Mexico has fewer phone lines per capita than almost every other major Latin America country, and the growth in adding new lines over the past four years is far less than that of Guatemala, Chile, Brazil, and many other countries in Central and South America. Barriers to competition also undermine Mexico's ability to attract investment and develop Internet services and electronic commerce, all of which require a competitive telecommunications market.

"For the sake of Mexico's long-term economic growth, and the vibrant economic partnership we have forged over the past decade, we urge Mexico to work with us for a timely resolution of these vital issues," said Ambassador Barshefsky.

BACKGROUND

USTR is taking action in response to complaints received pursuant to the annual review of telecommunications trade agreements conducted under section 1377 of the Omnibus Trade and Competitiveness Act of 1988. In April, USTR announced it would determine by today whether to take additional action against Mexico. The United States seeks resolution of concerns regarding commitments Mexico undertook in the WTO, in particular under the basic telecommunications agreement, which came into force in February 1998. These issues include:

(1) Disciplines over dominant carrier: Although Mexico's telecommunications market has been open to competition since 1996, during the past three years, Mexico's dominant carrier has actually increased its market share of long-distance customers from 74 to 81 percent, and has thwarted competitive carriers' attempts to build out alternate local networks. Mexico's WTO obligations require it, among other things, to maintain appropriate measures to prevent a major supplier from engaging in anti-competitive practices. To date, the Mexican government has not introduced effective measures to prevent Telmex from denying competitors phone lines, pricing services at predatory rates, refusing to interconnect, and refusing to pay competitors fees it owes them. To avoid such problems, many countries, including the United States, have introduced rules designed to address the specific problem of a carrier abusing its dominant position in the market. Mexico is now developing such rules, but it is unclear when they will be finalized and how they will be enforced.

(2) Interconnection: Mexico's WTO commitments require it to ensure timely, cost-oriented interconnection at any technically feasible point in the network. This obligation is designed to permit competitors to reach Telmex's customers, which constitute 98 percent of the fixed-line subscribers in Mexico. Telmex's interconnection rate for connecting long-distance carriers to Telmex customers is approximately 4.6 cents per minute, which represents the single largest cost for competitive long-distance carriers. This compares with rates in the United States, Canada and Chile of about half a cent, and rates in Argentina and Peru of roughly one cent. U.S.-affiliated carriers are also unable to obtain interconnection to provide local service and face anti-competitive rates for the transport of calls to regions where they have not yet built out their networks.

(3) Charging mechanisms for international calls: Mexico's WTO commitments provide for a broad range of options for terminating international calls into Mexico. Nevertheless, Mexico maintains above-cost termination rates, thereby inflating the rates consumers pay for calls between the United States and Mexico. Mexico's current rate of 19 cents per minute contrasts with rates of roughly 6 cents per minute for calls into Canada and the United Kingdom. In addition, under Mexican rules, only the dominant carrier – which has an incentive to keep the rate as high as possible – negotiates the international rate. Real competition in the termination of international calls into Mexico would lead to dramatic reductions in the cost of U.S.-Mexico calls and would greatly enhance the ability of the 20 million Mexicans and Mexican-Americans living in the United States to stay in touch with families and friends in Mexico.